

Message Text

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SUBJECT: YUGOSLAV ECONOMIC PROSPECTS IN 1974: VIEWS OF NATIONAL
BANK GOVERNOR

1. BEGIN SUMMARY: NATIONAL BANK GOVERNOR EXPRESSED CONCERN OVER
EFFECT OIL PRICE INCREASES ON YUGOSLAV ECONOMY. NATIONAL BANK
ESTIMATES THAT INCREASED OIL IMPORT BILL IN 1974 WILL AMOUNT TO
25 PERCENT OF YUGOSLAVIA'S TOTAL 1973 EXPORTS. EXPORTS WILL
HAVE TO BE INCREASED; "GREEN PLAN" MOMENTUM MUST BE STEPPED UP
TO ENABLE YUGOSLAVS TO REDUCE FOOD IMPORTS. INVESTMENT PLANS
TO BE REEXAMINED FOR ECONOMIC VIABILITY; PLANS TO REDUCE
FOREIGN BORROWING IN 1974 MAY ALSO CHANGE. ON INVISIBLES, NB HAS
SCALED BACK EXPECTED 20 PERCENT WORKERS' REMITTANCES GROWTH IN
1974 TO ZERO GROWTH. TOURISM RECEIPTS EXPECTED TO BE UNAFFECTED.
DESPITE IMPACT OIL PRICES, NB STILL EXPECTS 1974 BALANCE OF
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PAYMENTS TO BE SATISFACTORY. END SUMMARY.

2. ECONOMIC/COMMERCIAL COUNSELOR TOOK OPPORTUNITY DURING CALL ON NATIONAL BANK GOVERNOR COLONOVIC TO DISCUSS IMPACT OIL PRICE INCREASES ON YUGOSLAV ECONOMY AND DRAWN ATTENTION SECRETARY SHULTZ'S SPEECH AT ROME C-20 MEETING JANUARY 17. COLONOVIC AGREED THAT IMPACT OF OIL PRICE INCREASES ON LDC'S WOULD BE QUITE SERIOUS AND THAT MEANS MUST BE FOUND FOR ORDERLY USE OIL REVENUES MEET DEVELOPMENT NEEDS.

3. COLANOVIC ALSO WAS CONCERNED OVER EFFECTS OIL CRISIS ON YUGOSLAV ECONOMY. ACCORDING TO COLANOVIC, INCREASED OIL COSTS IN 1974 WILL AMOUNT TO 25 PERCENT (\$725 MILLION) OF YUGOSLAVIA'S TOTAL 1973 EXPORT EARNINGS (\$2.8 BILLION).

4. SUBSTANTIAL INCREASE IN OIL IMPORT BILL MEANS YUGOSLAVS MUST SUBSTANTIALLY INCREASE EXPORTS. FIRST QUARTER 1974 PROSPECTS FOR DOING JUST THIS ARE RATED AS EXTREMELY GOOD. "GREEN PLAN" FOR UPGRADING AGRICULTURE INVESTMENT, OUTPUT AND PRODUCTIVITY MUST BE GIVEN GREATER MOMENTUM TO ENABLE YUGOSLAVS TO SHARPLY REDUCE FOOD IMPORTS. INVESTMENT PROJECTS MUST BE RE-EXAMINED FOR ECONOMIC VIABILITY IN LIGHT OF OIL PRICE INCREASES. PETROCHEMICAL EXPANSION IS A PARTICULAR CASE IN POINT. PLANS TO REDUCE FOREIGN BORROWING IN 1974 MAY BE CHANGED AS RESULT OF OIL CRISIS.

5. NB MORE CONFIDENT NOW THAN SIX WEEKS AGO OF ECONOMIC OUTLOOK IN WESTERN EUROPE. BECAUSE OF EXPECTED SLOWDOWN IN WESTERN EUROPE, NB HAS SCALED BACK PROJECTED 20 PERCENT GROWTH IN 1974 WORKERS' REMITTANCES TO ZERO GROWTH. TOURIS RECEIPTS UNLIKELY ON PRESENT ESTIMATES TO BE SIGNIFICANTLY AFFECTED. WITH CAVEAT THAT OIL PRICES DO NOT GO FURTHER OUT OF CONTROL, COLANOVIC EXPECTS 1974 BALANCE OF PAYMENTS CURRENT ACCOUNT TO BE SATISFACTORY.

6. AS FOR DOMESTIC INFLATION, WHILE COLANOVIC DID NOT WANT TO CITE PRECISE FIGURE FOR INFLATION IN 1974, HE NOTED THAT CONTINUING FARM TO CITY EXODUS GENERATES CONSTANT EXCESS DEMAND. RESTRICTIONS ON DEMAND ARE INHIBITED BY IDLE INDUSTRIAL CAPACITY. LONG-TERM GOY STRATEGY IS THEREFORE TO REDUCE SUPPLY CONSTRAINTS BY INCREASING PRODUCTION, IMPROVING AGRICULTURAL PRODUCTIVITY AND STEPPING UP INVESTMENT AND CONSTRUCTION. THE CENTRAL GOVERNMENT'S ROLE WILL BE TO MODERATE INFLATIONARY IMPACT OF EXCESS DEMAND AND LIMITED OFFICIAL USE

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IMPROVE SUPPLY POSSIBILITIES.

7. BUDGET FOR 1974 WILL CONTAIN FOR FIRST TIME USE OF BOND MECHANISM AS GENERAL REVENUE RAISING INSTRUMENT. BONDS TO BE ISSUED SHORTLY. TOTAL FLOAT WILL BE TWO BILLION ND (\$117.6 MILLION). BONDS WILL BE BEARER-TYPE, SHORT-TERM (ONE-YEAR) AND HIGH INTEREST (10 PERCENT). IF SUCCESSFUL, USE WILL BE MADE OF BOND INSTRUMENT AS CAPITAL MOBILIZATION DEVICE AND AS SHORT-TERM DEMAND MODERATOR.

8. UNFAVORABLE STATE OF INTERNATIONAL BOND MARKET HAS CAUSED
YUGOSLAVS TO POSTPONE PLANNED INTERNATIONAL BOND ISSUE. YUGOSLAVS
STILL INTERESTED HOWEVER AND MAY MOVE FORWARD WHEN CONDITIONS
ARE BETTER ON BOND MARKET.
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